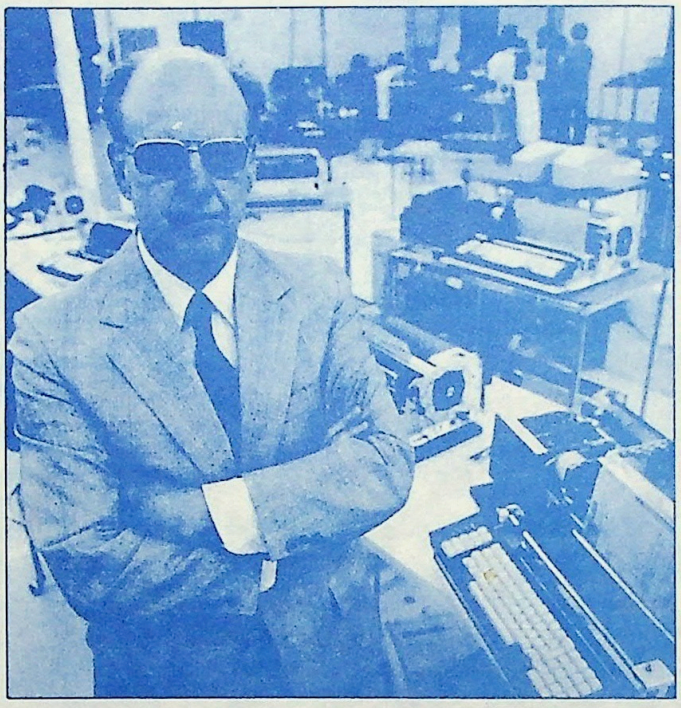
EXECUTIVES IN ACTION

When George Comstock Saw His Xerox Stock Fall, He Started A New Company

BY GEORGE BELL



George E. Comstock, founder of Durango Systems, Inc., believes that smaller is better in the computer world—a formula which worked for him once before at Diablo Systems, Inc.

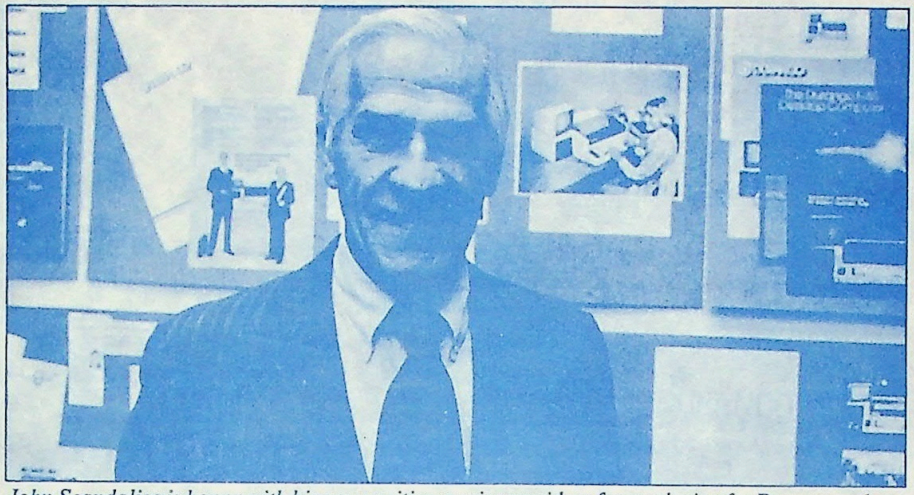
The name Durango may not be a household word like IBM or Xerox, but if you're shopping the market for a desk-top sized small business computer, the odds are that you will hear the name. That's because George E. Comstock's Xerox stock—which he had acquired in exchange for his interest in Diablo Systems, Inc.—dropped to $40 a share in the mid-1970s.

Comstock had founded Diablo Systems, Inc., the manufacturer of the computer industry's first daisy-wheel printer, in 1969. He built the firm's sales to $5 million before he and his partner sold out to Xerox in 1972 for Xerox shares that were then worth $137. Staying on as the new subsidiary's president, he increased annual sales of Diablo to the $100 million range in five years, while watching his Xerox stock fall sharply.

"It wasn't just that I saw my fortune dwindling; I also felt the need to do something in a more congenial environment," Comstock points out. "And," he adds, "I prefer the atmosphere one finds in a small company."

So the 55-year-old executive teamed up with two other Diablo veterans, John Scandalios, marketing VP, and Charles Waggoner, engineering director, and formed Durango Systems, Inc. in September, 1977. Scandalios is presently vice president of marketing for Durango and Waggoner is vice president of engineering. One year later the San Jose-based firm announced its first product, the Durango F-85.

Aiming especially for the general business requirements of firms which have never used a computer before, Waggoner's design team set out to develop a product



John Scandalios is happy with his new position as vice president for marketing for Durango, where decentralization is the key to the firm's marketing strategy.

that was not only small, but unusually simple to operate as well. "We designed it to be as non-threatening as we could make it," he says, "which not only simplified training but makes approaching a computer a lot less scary for the first-time operator." Durango's clientele seems to bear out the value of that feature: Nearly all of the first year's sales have been to customers new to the use of computers.

Comstock's track record with Diablo has proven to be a big asset. Financial backers, Sutter Hill Ventures and Citicorp Venture Capital, Ltd., are betting $4 million that Comstock will be able to shepherd Durango to even greater successes than Diablo achieved.

"Comstock has done it before," points out Lester M. Gottlieb, president of Data Dimensions, one of the largest distributors of computer terminals on the East Coast.

Of course, a hot new product isn't all that it takes to assure sales. To see to it that the firm's new product makes its dent in the marketplace, Scandalios and Waggoner are aiming at both the distributed processing needs of large companies as well as the accounting and general business requirements of smaller firms.

Their marketing approach for the computer is to offer large users the convenience of a self-contained unit (for individual departments or branch offices having data processing needs which can be served independently from the firm's integrated computer system) as well as an intelligent terminal. Durango offers interface options which tie the unit in with most large business computer systems.

"The larger company market will take more time to develop," Scandalios reports, "primarily due to the more elaborate purchasing procedures and lengthy technical and performance analyses they usually employ. The major reason our first installations have been so heavily skewed toward smaller companies is that they can make their purchasing decisions so much more rapidly."

From the outset, Durango's plan included heavy emphasis on international markets, and Scandalios expresses open surprise at how few firms of Durango's size are actively exploring overseas sales frontiers. Present figures are right on target with the firm's intentions, with slightly over half of Durango's sales going to international buyers. A system of regional distributors has been established to offer the F-85 in Canada, Europe, South America, Africa, Mexico and Asia.

In the United States, Scandalios has emphasized the creation of a network of independent dealers, while maintaining one company-operated sales and service outlet in Burlingame. Scandalios believes that Durango's sales office is important to the independent dealers. While the Burlingame office serves the firm's customers in the Bay Area, its primary purpose is to support Durango's dealer operations. This office assists in the development of salesman selection and training techniques, sales promotion skills, and installation and user training procedures. The office is also important as a test market facility to permit working closely with new applications and software packages before they are released for sales through the dealer network.

Presently, Durango's sales are headed for the $8 million goal Comstock had set for fiscal 1979, and he sees no reason to change his earlier prediction of volume of $100 million in 1983. These figures count on taking rapidly increasing shares of the targeted market areas: The desk-top computer market is expected to grow from $400 million in 1978 to $1.8 billion by 1983, according to the predictions of Edward A. Ross, a senior consultant at Venture Development Corp.; and sales of small business computers and intelligent terminals are predicted to rise from $6 billion in 1978 to $15 billion in 1982. Comstock feels his goal is achievable because Durango has a two-year lead in which to build volume before other computer makers'

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efforts to develop a competitive product bear fruit.

As a native of upstate New York, Comstock went to work as an aeronautical engineering trainee at Long Island's Grumman Aircraft Engineering Corp., after graduating from Worcester Polytechnic Institute in Massachusetts in 1945. "They put me on the assembly line to learn about their product and operations," he recalls, "and I spent my time there putting bomb racks on Hellcat fighters."

Six months later he returned to Massachusetts to join Norton Co., working primarily on diamond synthesis technology to be applied to the firm's line of grinding and cutting products. While with Norton, his interest in electronics developed and he earned a second BS by attending classes on his own time. With Norton's help Comstock continued his education, obtaining an MS in physics in 1949 at Cal Tech, in Pasadena.

Comstock left Norton in 1955 and signed on with Potter Instrument Co., joining the firm as a project engineer. He was quickly identified by Potter as having executive potential and was put through the American Management Assn.'s executive training course. After several management promotions, culminating in his position as vice president of engineering, Comstock left Potter and headed west to join the Friden division of Singer Co. in San Leandro, as director of research and development.

While with Friden, Comstock attended Stanford University's summer management training program, an experience he credits with giving him the understanding of financial matters which later proved invaluable for enlisting Diablo backers. Dissatisfied with and discouraged by what he terms "trying to convert old-line thought to new technology" there, he left Friden to form his own company (Diablo) in 1969.

Though Comstock's personal emphasis is now on his role as a manager and corporate leader, he has certainly made substantial contributions to the technical side of industry as well: He holds 40 patents, either independently or jointly, and estimates that he has contributed directly to products which have sold for a total of over $1.5 billion. His background in state-of-the-art technology assisted Comstock in playing a significant role during the product planning phase of the Durango F-85 system, which incorporates a central processor with memory, keyboard, printer, display screen and two mini-diskette storage modules in a single 65-lb., desk-top unit.

Existing computers with similar capabilities typically consist of three units—a desk with the keyboard, central processor and display screen; a separate printer; and a separate disc memory. An IBM System 5110, for instance, weighs four times as much, is priced several thousand dollars higher, and yet has less capability. Durango's system is especially useful to firms where allocating space to a computer system is a problem.

Away from the business world, George Comstock is an enthusiastic light airplane pilot with ratings in both powered aircraft and gliders—and his own brand of relaxation is meeting the physical and precise mental demands of acrobatic flying.

The demands he is meeting at Durango are a different sort of challenge, but ones which show every sign of being met with a high degree of success. Comstock feels confident in predicting even greater growth for his new undertaking than he was able to achieve with Diablo, and he has the support of backers and associates who don't make judgments lightly. And, of importance to all of them, the early signs are that the marketplace is in agreement. Having just passed its second anniversary, Durango has delivered over 700 F-85 systems, representing an annual rate of $20 million at retail value.

Given the rapid growth pattern of Durango, Comstock may soon be faced with the same problem of feeling uncomfortable in a large company which he experienced at Xerox. But he says, "That's a dilemma I'll be happy to deal with when it happens." E

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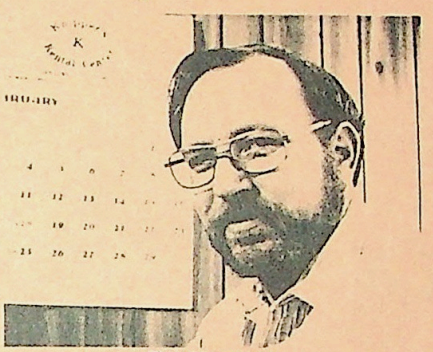
Increased Staff vs. Automation

Knippers Picks A Computer

by Bob Grote

Mike Anderson



Rick Majchrzak

The many horror stories the partners had heard of users being caught between the computer hardware supplier and the software supplier convinced them that the system selected must be handled exclusively by one company.

When the owners of Knippers Rental Center, of Santa Ana, California, found themselves struggling with ever-increasing mounds of paperwork needed to handle charge accounts that had more than doubled in number in just two years — from 400 to 850 — they knew they had to look for help.

Faced with the choice of increasing their existing office staff or finding an efficient, cost-effective alternative to handle their rapidly growing business, the homeowner/contractor rental agency had to study the options.

At first they considered adding another clerk to their office staff. But there were problems that ruled out this possibility. They didn't have the necessary space, and from a cost standpoint it was just not feasible to add to the existing building. Nor was the payroll increase of $850 to $1,000 per month for salary and benefits especially appealing.

So based upon his previous management experience with US Rentals, Rick Majchrzak, co-owner of Knippers, suggested to his partner, Mike Anderson, that they give some thought to automation. Majchrzak knew that US Rentals had been successfully using computers for years to assist them with bookkeeping and general management tasks.

And while Knippers came nowhere near the volume of business handled by US Rentals, Majchrzak was convinced the advantages of automation justified investigation of computer systems on the market.

Majchrzak and his partner decided it was worth taking a close look at the small business computer systems available to see if there was one that could match their requirements.

What They Needed

With office space at a premium, compactness was essential. And based on the advice of a friend who was a software specialist, they wanted the system to be a complete package. "The computer system should be programmed in 'Basic', just in case the company you buy from goes out of business," they were told. "It should be a complete package — in other words, it should include hardware and computer programs (software packages) that come close to satisfying all of Knippers' needs. Minor software changes should be acceptable."

Price, they knew, would be a determining factor in their choice, since the most the business could possibly afford to spend for the computer system was about $20,000. And finally, Knippers would insist on the full service requirement.

The many horror stories the partners had heard of users being caught between the computer hardware supplier and the software supplier when problems developed convinced them that the system selected must be handled exclusively by one company.

Knippers selected an under-$20,000

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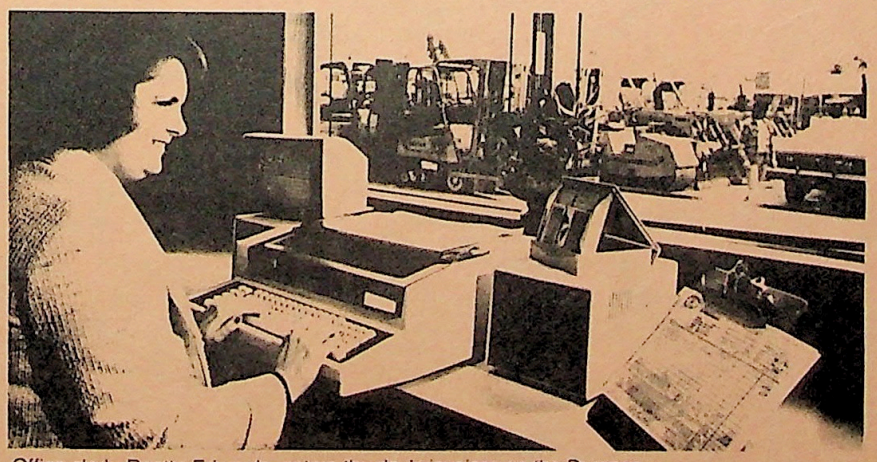

Office clerk, Roetta Edwards, enters the day's invoices on the Durango F-85 desk-top computer. Two hours of one afternoon was all the time it took to master this operation.

Computers
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system that incorporates a central processor with 64K memory, keyboard, 165-CPS bi-directional printer, display screen, and two mini-diskette storage modules in a single 65-pound desk-top unit just a little larger than an electric typewriter.

Changing Over

Once the selection process had been completed, the next steps were installation of the computer system and training of Knipper's office personnel. Training time turned out to be minimal because, Majchrzak said, "the system is simple to operate." But he is quick to add, "That doesn't mean you can expect to convert from your manual bookkeeping system to an automated system overnight — it just won't happen. Minor problems are inevitable in a changeover."

And here is precisely where Majchrzak and his partner saw the "one company criteria" pay off. "From start-up on through, our supplier (California Business Systems) has been very responsive to every problem we've had — even though we were partially automated and partially manual for a time, not once did our financial accounting get out of control," Majchrzak said.

Starting with the accounts receivable software package, they took their time making the transition from manual to automated bookkeeping. "One software package was worked at a time," said Majchrzak. "When we were totally familiar and comfortable with that package, we went on to the next. We now have three of the four packages operational and are working on the fourth. While it wasn't completely painless, we are very pleased with the results."

Putting The Computer To Work

Over and above the standard software packages provided (accounts receivable, accounts payable, payroll and general ledger), Knippers' supplier developed special software specifically tailored to the equipment rental business. This software has since been adopted by several other equipment rental operations.

Briefly stated, the special software provides Knippers with: 1. return on investment reports; 2. utilization of equipment reports; and 3. depreciation schedules for all equipment.

Knippers monitors the utilization of 450 pieces of equipment by computer. This figure does not represent total inventory, but since Knippers decided it would not be cost-effective to monitor inexpensive equipment, these items were excluded.

Once the rental contract information and the equipment identification number are entered on the keyboard, the computer does the rest, operating on this information to produce utilization reports for each of the 450 pieces of equipment. With this system Knippers is automatically alerted when a piece of equipment is not being rented as much as had been anticipated. But a low utilization rate does not necessarily mean the equipment is not cost-effective.

To determine whether a piece of equipment is cost-effective, Knippers refers to the return-on-investment report. The computer generates return-on-investment reports by combining equipment utilization data with original equipment cost data and repair-and-maintenance cost (material only) data.

Manual preparation of the monthly billings to charge account customers is now a thing of the past. This F-85 printer performs this task in a fraction of the time it used to take.

As an added bonus, Majchrzak and his partner find they are not only getting much more productivity from the computer than another bookkeeper could possibly provide — but for less money.

The overall cost for the system the company bought was approximately $19,000. The original hardware package cost $13,000 and the auxiliary discet, which added another megavite to the program, cost $3,800. Software cost $2,000. For this, Knippers pays about $400 monthly.

The company pays another $100 monthly for maintenance of the computer.

According to a CBS spokesman, it's difficult to pinpoint exactly when computers become profitable for a business. "It's a function of the amount of equipment and the size and type of the accounts," he said. He added that computers were only attractive to businesses doing charge, rather than cash business.

"But if you're considering adding another bookkeeper at between $850 and $1,000 a month," he added. "There's a possible savings of over $350 monthly for you in computers."

According to Majchrzak, the system is costing Knippers less than $500 per month. Maybe that explains why, when asked if Knippers would do it over again knowing what they do now, Majchrzak doesn't hesitate to say, "Absolutely."

(Editor's note: Bob Grote is president of California Business Systems, Laguna Hills, California. CBS is an authorized dealer of Durango Systems.)